



## City of Galveston, Texas

Review of Investment Performance  
Quarter Ended December 31, 2015

**PFM Asset Management LLC**  
221 W. 6th St., Suite 1900  
Austin, TX 78701  
(512)472-7194  
(512)427-0932 fax  
[www.pfm.com](http://www.pfm.com)

## Summary

- The Federal Open Market Committee (FOMC) increased the target federal funds rate by 25 basis points (bps) (0.25%) at its December meeting – its first rate hike since 2006. In doing so, the FOMC stressed its intention to normalize rates at a gradual pace.
- The year ended with strong job growth momentum as the economy added 292,000 new jobs in December. This brought the 2015 tally to 2.65 million new jobs in total – enough to shrink the unemployment rate to 5%. Wage inflation edged up modestly, suggesting a chance for future inflation.
- While the Federal Reserve (Fed) took the first step to normalize interest rates, other central banks have continued to implement accommodative monetary policies. The European Central Bank (ECB) extended its monetary easing policy through the first quarter of 2017 and cut its deposit rate further into negative territory (-0.3%). The Bank of Japan (BOJ) and People's Bank of China (PBOC) also remain accommodative.

## Economic Snapshot

- U.S. gross domestic product (GDP) expanded at a 2% rate in the third quarter. This represents a modest slowdown from the second quarter, caused by a reduction in inventory accumulation.
- In a year-end bipartisan negotiation, Congress passed a \$1.1 trillion spending and tax budget, which also lifted the 40-year ban on U.S. crude oil exports.
- Global commodity prices continued to fall, increasing concerns over global growth and the sustainability of producers within the energy sector. Headlining this rout were oil prices, which continued to slide, sinking to less than \$35 per barrel in December – the lowest level since February 2009.
- China continued to allow the yuan to weaken, ending the year at its lowest level versus the U.S. dollar in nearly six years. The Chinese economy continued to slow – stoking market concern over the world's second-largest economy – though it is expected to meet its major economic targets for the year.

## Interest Rates

- The new target range for the federal funds rate, as established by the FOMC, is 25 to 50 bps, ending the FOMC's seven-year "zero interest rate policy."
- Interest rates across the curve moved up significantly throughout the quarter, with the 10-year rising 23 bps to 2.27% and the two-year moving up 42 bps to 1.05%.
- On the shorter end of the yield curve, 12-month Treasury bills ticked up approximately 30 bps to 0.60%.

## Sector Performance

- Rising rates across the yield curve caused U.S. Treasury benchmarks to post negative returns for all but the shortest maturities (six months and under). While the rate increase was less pronounced for longer maturities, their extended durations – and accompanying sensitivity to changes in rates – caused their performance to trail the greatest.
- Non-callable federal agency securities performed in line with comparable maturity Treasuries; callable securities modestly outperformed as their incremental yield helped as rates rose.
- Narrowing yield spreads between corporate and government obligations helped corporates to deliver strong relative performance. However, absolute returns were still negative. A-rated issuers were the best-performing quality category.
- Mortgage-backed securities (MBS) were among the strongest-performing sectors in the fourth quarter, aided by rising long-term rates, which helped to slow prepayments; this was particularly true for higher coupon issues. MBS joined municipals as the lone sectors to produce positive performance for the quarter.

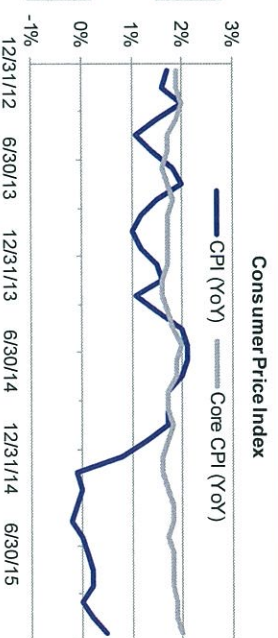
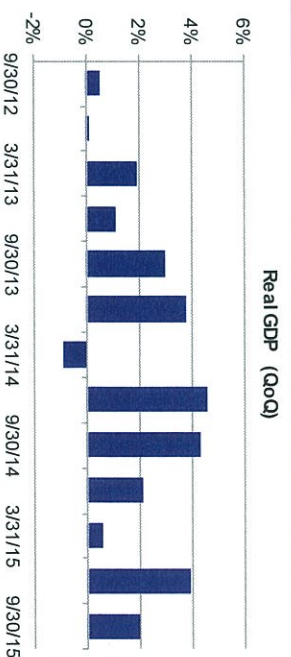
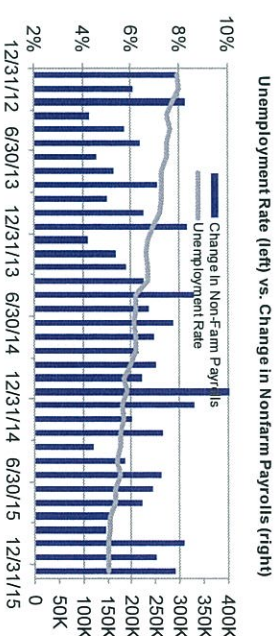
## Economic Snapshot

Labor Market				Latest	Sep 2015	Dec 2014
Unemployment Rate	Dec'15	5.0%	5.1%	5.6%		
Change In Non-Farm Payrolls	Dec'15	292,000	145,000	329,000		
Average Hourly Earnings (YoY)	Dec'15	2.5%	2.3%	1.8%		
Personal Income (YoY)	Nov'15	4.4%	4.6%	5.2%		
Initial Jobless Claims (week)	1/1/16	277,000	276,000	293,000		
Growth						
Real GDP (QoQ SAAR)	2015Q3	2.0%	3.9% <sup>1</sup>	4.3% <sup>2</sup>		
GDP Personal Consumption (QoQ SAAR)	2015Q3	3.0%	3.6% <sup>1</sup>	3.5% <sup>2</sup>		
Retail Sales (YoY)	Nov'15	1.4%	2.2%	3.3%		
ISM Manufacturing Survey (month)	Dec'15	48.2	50.2	55.1		
Existing Home Sales SAAR (month)	Nov'15	4.76 mil.	5.55 mil.	5.07 mil.		
Inflation / Prices						
Personal Consumption Expenditures (YoY)	Nov'15	0.4%	0.2%	0.8%		
Consumer Price Index (YoY)	Nov'15	0.5%	0.0%	0.8%		
Consumer Price Index Core (YoY)	Nov'15	2.0%	1.9%	1.6%		
Crude Oil Futures (WTI, per barrel)	Dec 31	\$37.04	\$45.09	\$53.27		
Gold Futures (oz.)	Dec 31	\$1,060	\$1,116	\$1,184		

Unemployment Rate (left) vs. Change in Nonfarm Payrolls (right)

Real GDP (QoQ)

Consumer Price Index



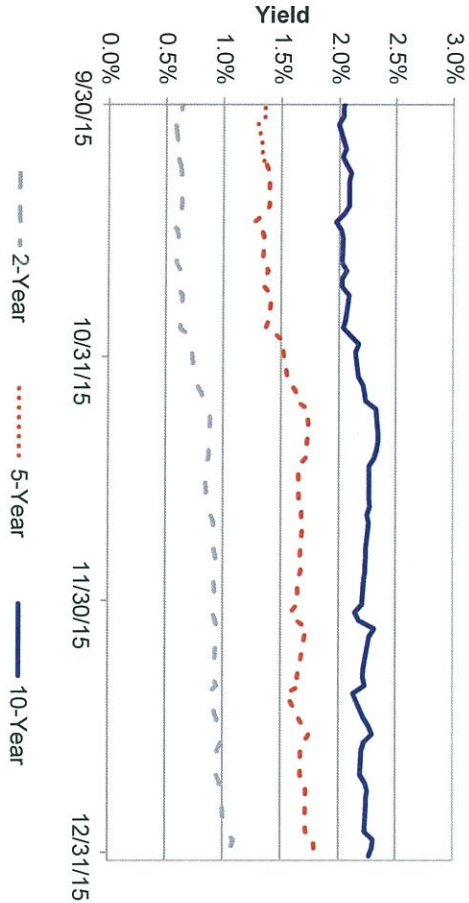
1. Data as of Second Quarter 2015      2. Data as of Third Quarter 2014

Note: YoY = year over year, QoQ = quarter over quarter, SAAR = seasonally adjusted annual rate, WTI = West Texas Intermediate crude oil

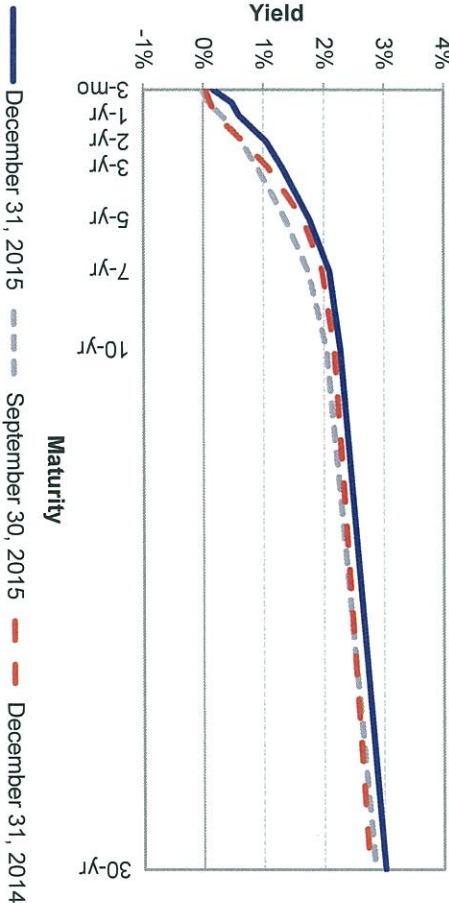
Source: Bloomberg

Interest Rate Overview

U.S. Treasury Note Yields



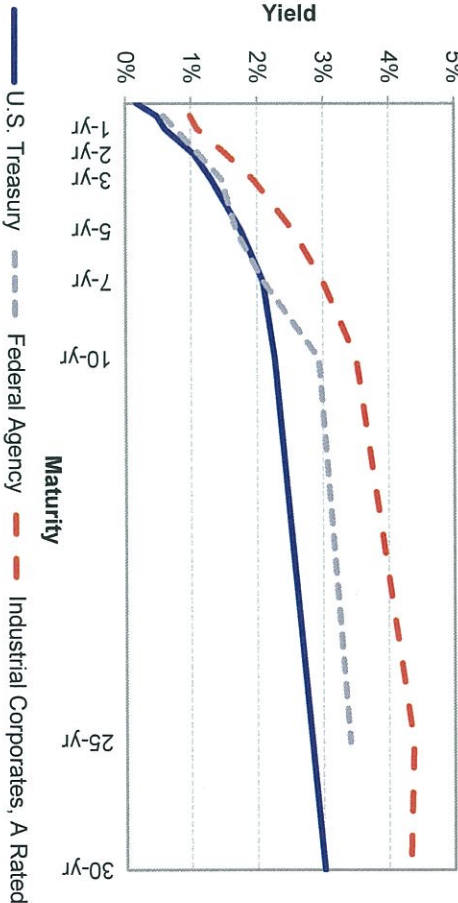
U.S. Treasury Yield Curve



U.S. Treasury Yields

Maturity	12/31/15	9/30/15	Change over Quarter	12/31/14	Change over Year
3-month	0.17%	(0.02%)	0.19%	0.04%	0.13%
1-year	0.60%	0.31%	0.29%	0.22%	0.38%
2-year	1.05%	0.63%	0.42%	0.67%	0.38%
5-year	1.76%	1.36%	0.40%	1.65%	0.11%
10-year	2.27%	2.04%	0.23%	2.17%	0.10%
30-year	3.02%	2.85%	0.17%	2.75%	0.27%

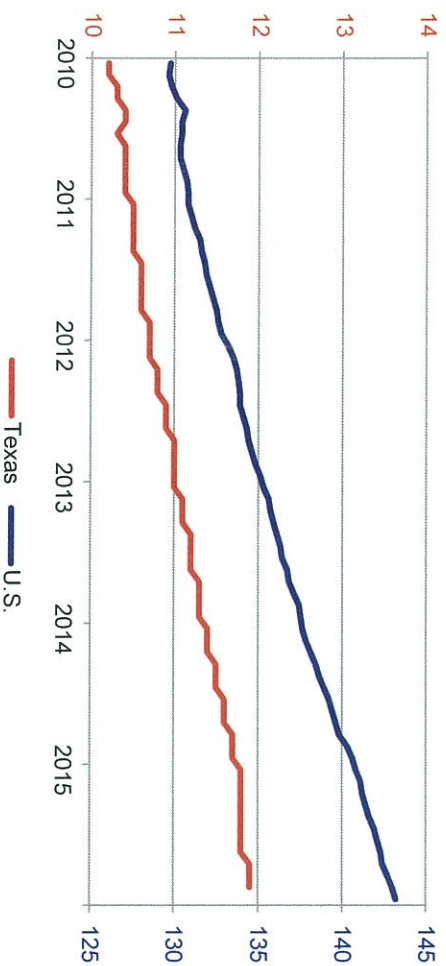
Yield Curves as of 12/31/2015



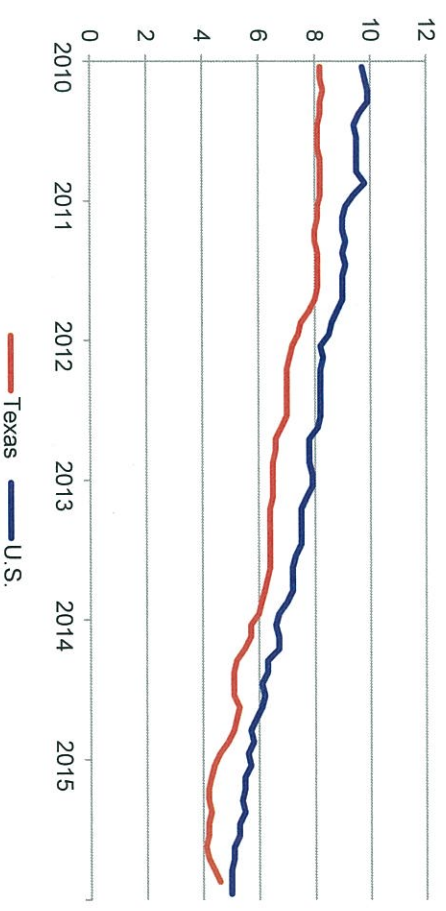
Source: Bloomberg

## Texas Economic Indicators

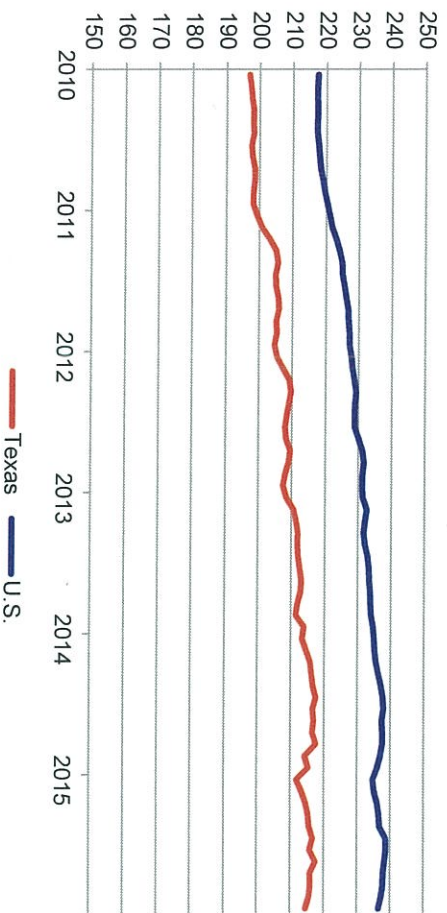
Nonfarm Employment



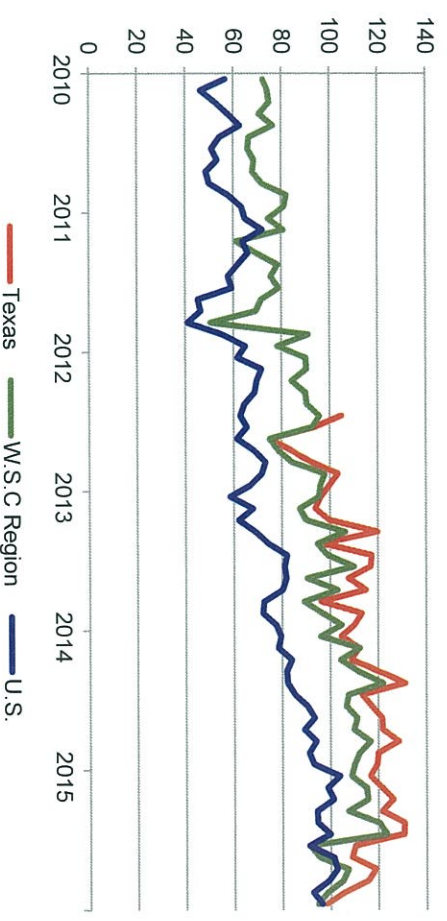
Unemployment



Consumer Price Index



Consumer Confidence



Source: Texas Workforce Commission; U.S. Bureau of Labor Statistics; The Conference Board

## Portfolio Summary

Combined Funds	December 31, 2015	September 30, 2015	Change
Combined Funds (Market Value)	\$99,450,249.12	\$97,534,081.16	\$1,916,167.96
Combined Funds (Book Value)	\$99,511,345.94	\$97,469,599.19	\$2,041,746.75
Unrealized Gain/ Loss	(\$61,096.82)	\$64,481.97	(\$125,578.79)
Accrued Interest	\$34,131.83	\$74,549.98	(\$40,418.15)
Portfolio WAM	240 days	233 days	

### Combined Funds

- The portfolio is primarily invested in U.S. Treasury, Federal Agency securities, and FDIC Insured Certificates of Deposit with pool and bank deposits. Overall, the portfolio provides significant liquidity and maintains a high credit quality.
- PFMAM found opportunities to extend the Operating Funds portfolio's duration when interest rates approached the upper end of recent trading ranges. In November, we sold \$2.0 million of 6-month federal agencies and used the proceeds to purchase 3-year U.S. Treasury notes. In December, we sold \$1.5 million of 6- to 12-month U.S. Treasury notes and used the proceeds to purchase 3-year U.S. Treasury notes. These extension trades generated an additional average yield of 0.70%.
- Short maturity yields rose steadily throughout the quarter as expectations for a December Federal Open Market Committee ("FOMC") rate hike increased with an inflow of modestly strong economic data.
- The portfolio complies with Texas statutes and the City's investment policy.
- Bank Account / Pool Balances (as of 12/31/2015):
  - TexasDAILY: \$15,785,589.82
  - Frost Sweep: \$ 9,464,000.00
  - Tex Pool: \$ 3,197,950.24
- Approximately 28.6% of the City's portfolio remains in overnight money market type investments. PFMAM continues to monitor the market for opportunities to invest current pool balances in securities with longer maturities.
- We will continue to work closely with the City to make investment recommendations based on the City's cash flow needs and liquidity requirements.

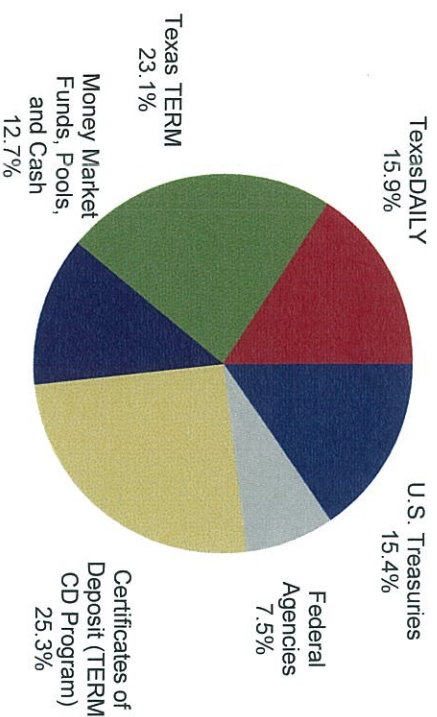
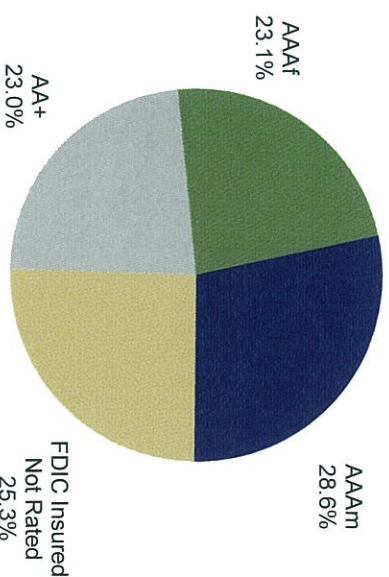
## Portfolio Summary *(continued)*

### Portfolio Strategy

- We maintain the outlook that the economy will continue to expand at a moderate pace in the intermediate term. We will continue to monitor any spillover effect that modest global growth and muted inflation may have on the U.S. economy. These factors will help justify the Federal Open Market Committee's ("FOMC's") stated intention to remain patient with the pace at which it raises the federal funds rate.
- Recent FOMC projections indicate that Committee members anticipate that three or four federal funds target rate hikes may be appropriate in 2016 – projections that most market participants believe to be overstated. We believe that expectations for low inflation will limit this year's rate hikes to two or three, and that short term yields will trend only modestly higher in the near term.
- Because of narrow yield spreads, federal agencies currently have limited appeal relative to comparable-maturity U.S. Treasuries. We will monitor the yield relationship between the two sectors and take advantage of opportunities that may arise – opportunities that are most likely to occur with new-issue securities.
- PFMAM's focus continues to be on the safety of principal, while achieving the City's long-term investment objectives. We will maintain a well-diversified, high-quality portfolio by capitalizing on opportunities offered by the market.

## Composite Portfolio Composition and Credit Quality

Security Type <sup>1</sup>	December 31, 2015	% of Portfolio <sup>2</sup>	September 30, 2015	% of Portfolio <sup>2</sup>	Permitted by Investment Policy
U.S. Treasuries	\$15,342,786.05	15.4%	\$13,425,163.69	13.8%	90%
Federal Agencies	\$7,511,054.84	7.5%	\$9,621,209.81	9.9%	90%
Mortgage-Backed Securities	\$0.00	0.0%	\$0.00	0.0%	0%
Commercial Paper	\$0.00	0.0%	\$0.00	0.0%	35%
Certificates of Deposit (TERM CD Program)	\$25,183,000.00	25.3%	\$26,414,000.00	27.1%	50%
Bankers' Acceptances	\$0.00	0.0%	\$0.00	0.0%	0%
Repurchase Agreements	\$0.00	0.0%	\$0.00	0.0%	100%
Money Market Funds, Pools, and Cash	\$12,661,950.24	12.7%	\$10,158,379.67	10.4%	100%
Texas TERM	\$23,000,000.00	23.1%	\$26,000,000.00	26.6%	100%
Texas DAILY	\$15,785,589.82	15.9%	\$11,989,877.97	12.3%	100%
<b>Totals</b>	<b>\$99,484,380.95</b>	<b>100.0%</b>	<b>\$97,608,631.14</b>	<b>100.0%</b>	

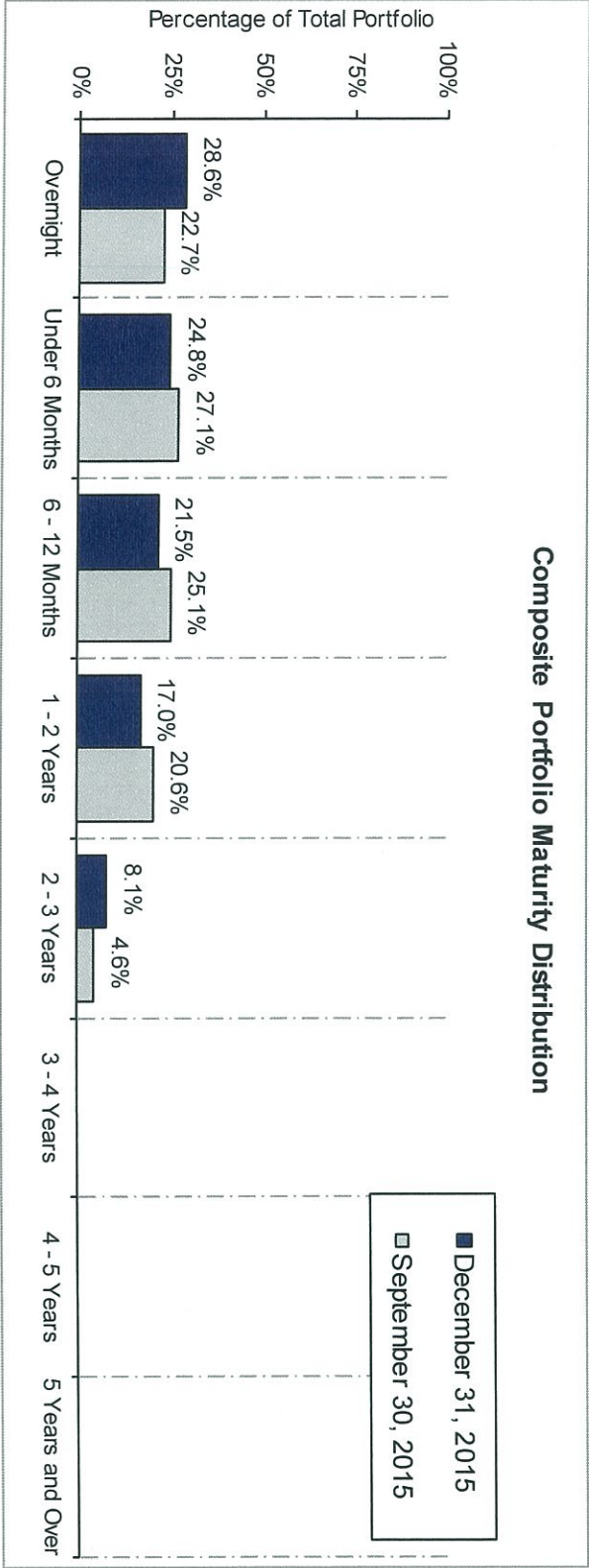
City of Galveston Portfolio Composition  
as of 12/31/15City of Galveston Credit Quality Distribution  
as of 12/31/15

## Notes:

1. End of quarter trade-date market values of portfolio holdings, including accrued interest
2. Percentages may not add up to 100% due to rounding.

Composite Portfolio Maturity Distribution

<u>Maturity Distribution</u>	<u>December 31, 2015</u>	<u>September 30, 2015</u>
Overnight	\$28,447,540.06	\$22,148,257.64
Under 6 Months	24,644,053.11	26,409,000.00
6 - 12 Months	21,438,639.06	24,463,474.58
1 - 2 Years	16,943,727.02	20,082,602.48
2 - 3 Years	8,010,421.70	4,505,296.44
3 - 4 Years	0.00	0.00
4 - 5 Years	0.00	0.00
5 Years and Over	0.00	0.00
	<b>\$99,484,380.95</b>	<b>\$97,608,631.14</b>



## TexasTERM Holdings

Settlement Date	Term Description	Investment Amount	Maturity Date	Value at Maturity	Rate
10/19/2015	TERM - Texas TERM DD 1216	\$2,000,000.00	2/1/2016	\$2,001,668.49	0.29%
7/15/2015	TERM - Texas TERM DD 1216	\$1,000,000.00	3/31/2016	\$1,003,196.72	0.45%
7/13/2015	TERM - Texas TERM DD 1216	\$1,000,000.00	4/8/2016	\$1,002,950.82	0.40%
7/20/2015	TERM - Texas TERM DD 1216	\$1,000,000.00	4/15/2016	\$1,003,172.13	0.43%
8/3/2015	TERM - Texas TERM DD 1216	\$1,000,000.00	4/29/2016	\$1,003,172.13	0.43%
9/11/2015	TERM - Texas TERM DD 1216	\$5,000,000.00	6/6/2016	\$5,017,271.86	0.47%
11/5/2015	TERM - Texas TERM DD 1216	\$1,000,000.00	8/1/2016	\$1,003,467.21	0.47%
12/7/2015	TERM - Texas TERM DD 1216	\$10,000,000.00	9/2/2016	\$10,047,950.82	0.65%
12/14/2015	TERM - Texas TERM DD 1216	\$1,000,000.00	9/15/2016	\$1,005,504.92	0.73%
	<b>TexasTERM</b>	<b>\$23,000,000.00</b>		<b>\$23,088,355.10</b>	<b>0.54%</b>
4/16/2015	CD - American National Bank Of Minnesota, MN	\$248,000.00	1/11/2016	\$248,917.26	0.50%
10/13/2015	CD - Vista Bank (Fka Security Bank), TX	\$248,000.00	1/11/2016	\$248,336.33	0.55%
4/23/2015	CD - Access National Bank, VA	\$248,000.00	1/19/2016	\$248,920.66	0.50%
5/5/2015	CD - Pacific Western Bank (Acquired Security Pacific Bank, Los Angeles	\$248,000.00	2/1/2016	\$248,924.05	0.50%
5/5/2015	CD - Landmark Community Bank, TN	\$248,000.00	2/1/2016	\$248,831.65	0.45%
9/10/2015	CD - Bank 7, OK	\$248,000.00	2/1/2016	\$248,831.65	0.45%
12/11/2015	CD - Capital Bank, N.A., MD	\$248,000.00	3/8/2016	\$248,905.03	0.74%
4/3/2014	CD - Pacific Enterprise Bank, CA	\$248,000.00	3/10/2016	\$248,428.05	0.70%
4/3/2014	CD - Summit Bank & Trust, CO	\$247,000.00	4/4/2016	\$249,229.09	0.45%
4/3/2014	CD - Edgar County Bank & Trust Co. (The), IL	\$247,000.00	4/4/2016	\$249,724.44	0.55%
4/4/2014	CD - Independent Bank (Bank Of Houston), TX	\$246,000.00	4/4/2016	\$249,453.44	0.70%
4/4/2014	CD - Western Alliance Bank, AZ	\$246,000.00	4/4/2016	\$249,448.72	0.70%
4/4/2014	CD - Security Bank, TN	\$247,000.00	4/4/2016	\$249,968.06	0.60%
4/4/2014	CD - First Freedom Bank, TN	\$247,000.00	4/4/2016	\$249,028.17	0.41%
10/7/2015	CD - Bank Of Ruston, LA	\$247,000.00	4/4/2016	\$249,968.06	0.60%
10/7/2015	CD - Affiliated Bank, TX	\$248,000.00	4/6/2016	\$248,618.30	0.50%
10/7/2015	CD - Bank Of The Ozarks, AR	\$248,000.00	4/6/2016	\$248,741.96	0.60%
10/7/2015	CD - Financial Federal Savings Bank, TN	\$248,000.00	4/6/2016	\$248,680.13	0.55%
10/7/2015	CD - Enebank Usa, UT	\$248,000.00	4/6/2016	\$248,568.84	0.46%
4/10/2014	CD - Wisconsin Bank & Trust (Formerly Wisconsin Community Bank)	\$247,000.00	4/11/2016	\$249,229.09	0.45%
4/10/2014	CD - Security Bank, OK	\$247,000.00	4/11/2016	\$249,229.09	0.45%
4/10/2014	CD - Modern Bank, N.A., NY	\$247,000.00	4/11/2016	\$249,526.30	0.51%
4/10/2015	CD - Quoin Financial Bank, SD	\$247,000.00	4/11/2016	\$249,278.63	0.46%
10/13/2015	CD - State Bank Of India (New York #33682 & Illinois #33664), NY	\$248,000.00	4/11/2016	\$249,496.15	0.60%
10/13/2015	CD - Privatebank & Trust Co. (The) (Acqd Privatebank, Bloomfield Hills)	\$248,000.00	4/12/2016	\$248,566.47	0.45%
10/13/2015	CD - Bank Of China, NY	\$248,000.00	4/12/2016	\$248,566.47	0.50%
10/13/2015	CD - Israel Discount Bank Of New York, NY	\$248,000.00	4/12/2016	\$248,566.47	0.45%
10/13/2015	CD - Patriot Bank, OK	\$248,000.00	4/12/2016	\$248,566.47	0.45%

## Texas TERM Holdings

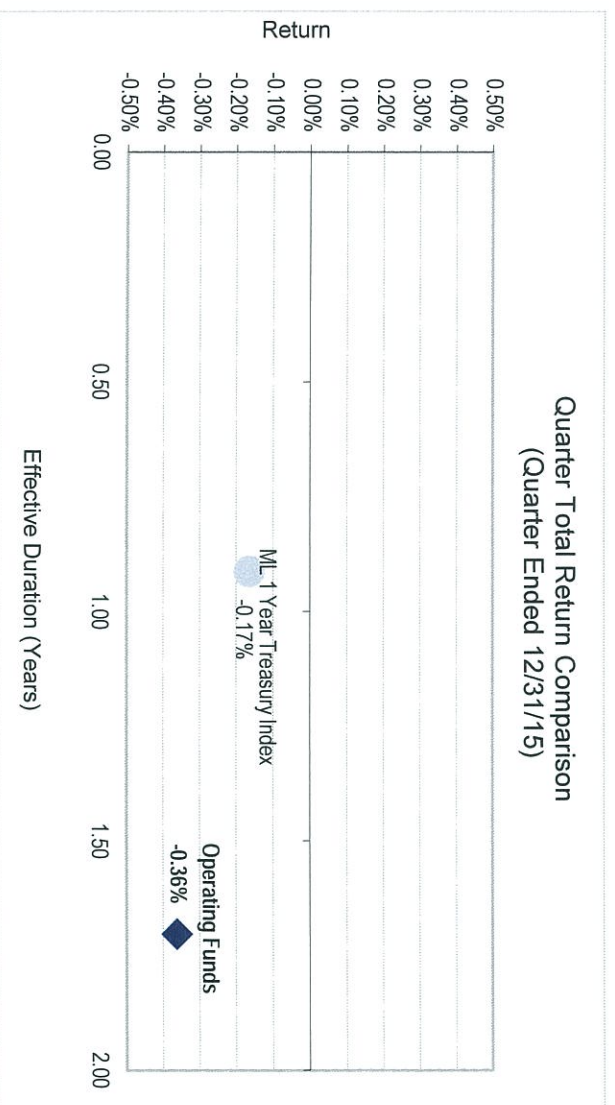
Settlement Date	Term Description	Investment Amount	Maturity Date	Value at Maturity	Rate
4/15/2014	CD - Charter West National Bank, NE	\$247,000.00	4/14/2016	\$249,272.40	0.46%
4/15/2014	CD - Mechanics Savings Bank, ME	\$248,000.00	4/14/2016	\$249,984.00	0.40%
11/17/2015	CD - Freedom Bank Of Virginia (The), VA	\$248,000.00	4/15/2016	\$248,662.47	0.65%
10/26/2015	CD - First Federal Savings Bank Of Boston, MA	\$248,000.00	4/25/2016	\$248,531.74	0.43%
10/26/2015	CD - Southern States Bank, AL	\$248,000.00	4/25/2016	\$248,556.47	0.45%
10/26/2015	CD - Stearns Bank N.A., MN	\$248,000.00	4/25/2016	\$248,556.47	0.45%
10/26/2015	CD - Central Bank Of Oklahoma (Fka Onb Bank & Trust Co), OK	\$248,000.00	4/25/2016	\$248,677.66	0.55%
5/5/2015	CD - Fieldpoint Private Bank & Trust, CT	\$248,000.00	5/4/2016	\$249,736.00	0.70%
5/11/2015	CD - First National Bank Of Hebronville (The), TX	\$248,000.00	5/10/2016	\$249,364.00	0.55%
5/11/2015	CD - East West Bank, CA	\$248,000.00	5/10/2016	\$249,488.00	0.60%
5/11/2015	CD - East Boston Savings Bank, MA	\$248,000.00	5/10/2016	\$249,364.00	0.55%
5/11/2015	CD - Oregon Community Bank & Trust, WI	\$248,000.00	5/10/2016	\$249,364.00	0.55%
5/11/2015	CD - First National Bank Of Park Falls, WI	\$248,000.00	5/10/2016	\$249,364.00	0.55%
5/11/2015	CD - Middlefield Banking Company (The), OH	\$248,000.00	5/10/2016	\$249,364.00	0.55%
11/16/2015	CD - Bof Federal Bank, CA	\$248,000.00	5/16/2016	\$248,865.62	0.70%
6/19/2015	CD - Gbc International Bank, CA	\$248,000.00	6/20/2016	\$249,620.83	0.65%
6/19/2015	CD - Acb Bank, OK	\$248,000.00	6/20/2016	\$249,496.15	0.60%
6/19/2015	CD - Community Trust Bank, LA	\$248,000.00	6/20/2016	\$249,620.83	0.65%
6/19/2015	CD - Tomatobank, N.A., CA	\$248,000.00	6/20/2016	\$249,396.41	0.56%
6/24/2015	CD - First Commons Bank, Na, MA	\$248,000.00	6/23/2016	\$249,488.00	0.60%
6/24/2015	CD - Grand Bank, OK	\$248,000.00	6/23/2016	\$249,537.60	0.62%
6/24/2015	CD - Franklin Synergy Bank, TN	\$248,000.00	6/23/2016	\$249,736.00	0.70%
6/24/2015	CD - First Home Bank, FL	\$248,000.00	6/23/2016	\$249,488.00	0.60%
7/6/2015	CD - Community West Bank N.A., CA	\$248,000.00	7/5/2016	\$249,438.40	0.58%
7/6/2015	CD - Farmers & Merchants Union Bank, WI	\$248,000.00	7/5/2016	\$249,612.00	0.65%
7/6/2015	CD - Pacific Commerce Bank, CA	\$248,000.00	7/5/2016	\$249,388.80	0.56%
7/6/2015	CD - Native American Bank (Formerly Of Browning, Mt), CO	\$248,000.00	7/5/2016	\$249,488.00	0.60%
7/20/2015	CD - Kirkwood Bank Of Nevada, NV	\$248,000.00	7/19/2016	\$249,636.80	0.66%
7/21/2015	CD - Millbury National Bank, MA	\$248,000.00	7/21/2016	\$249,865.10	0.75%
7/30/2015	CD - First Bank Of Ohio, OH	\$248,000.00	7/29/2016	\$249,488.00	0.60%
7/30/2015	CD - Bank Of Krenlin (The), OK	\$248,000.00	7/29/2016	\$249,612.00	0.65%
7/30/2015	CD - Savoy Bank, NY	\$248,000.00	7/29/2016	\$249,860.00	0.75%
8/3/2015	CD - Bar Harbor Savings & Loan Association, ME	\$248,000.00	8/2/2016	\$249,612.00	0.65%
8/20/2015	CD - Unity National Bank Of Houston, TX	\$248,000.00	8/19/2016	\$249,488.00	0.60%
8/20/2015	CD - Citizens National Bank Meyersdale, PA	\$248,000.00	8/19/2016	\$249,537.60	0.62%
9/18/2015	CD - Bank Of Glen Ullin, ND	\$248,000.00	9/19/2016	\$249,760.80	0.71%
9/18/2015	CD - Valliance Bank, OK	\$248,000.00	9/19/2016	\$249,620.83	0.65%
9/21/2015	CD - Farmers State Bank Of Trimont, MN	\$248,000.00	9/20/2016	\$249,620.83	0.65%
				\$249,612.00	0.65%

## Texas TERM Holdings

Settlement Date	Term Description	Investment Amount	Maturity Date	Value at Maturity	Rate
9/22/2015	CD - Cit Bank, N.A. (Fka Onewest Bank, N.A.), CA	\$247,000.00	9/21/2016	\$249,593.50	1.05%
11/9/2015	CD - First Capital Bank, TN	\$248,000.00	10/4/2016	\$249,681.64	0.75%
11/2/2015	CD - Crestmark Bank, MI	\$248,000.00	11/1/2016	\$249,860.00	0.75%
11/2/2015	CD - Plus International Bank, FL	\$247,000.00	11/1/2016	\$249,099.50	0.85%
11/2/2015	CD - Valley National Bank, Ok, OK	\$248,000.00	11/1/2016	\$249,934.40	0.78%
11/30/2015	CD - Sonabank, VA	\$248,000.00	11/1/2016	\$249,736.00	0.70%
11/30/2015	CD - Us Metro Bank, CA	\$248,000.00	11/29/2016	\$249,909.60	0.77%
12/9/2015	CD - Solera National Bank, CO	\$247,000.00	11/29/2016	\$249,099.50	0.85%
12/9/2015	CD - Kansas State Bank Of Manhattan, KS	\$247,000.00	12/8/2016	\$249,371.20	0.96%
12/9/2015	CD - Pacific Alliance Bank, CA	\$247,000.00	12/8/2016	\$249,198.30	0.89%
12/18/2015	CD - T Bank, TX	\$247,000.00	12/19/2016	\$249,607.71	1.05%
12/18/2015	CD - Prudential Savings Bank, PA	\$247,000.00	12/19/2016	\$249,483.53	1.00%
4/3/2014	CD - Providence Bank (Fka Community First Bank, IL	\$243,000.00	4/3/2017	\$249,566.99	0.90%
4/3/2014	CD - Continental Bank, UT	\$246,000.00	4/3/2017	\$249,693.37	0.50%
4/3/2014	CD - Great Midwest Bank, Ssb, WI	\$243,000.00	4/3/2017	\$249,202.16	0.85%
4/3/2014	CD - Citizens Trust Bank, GA	\$247,000.00	4/3/2017	\$249,966.71	0.40%
4/3/2014	CD - Bank Leumi Usa, NY	\$242,000.00	4/3/2017	\$249,266.63	1.00%
4/3/2014	CD - California Pacific Bank, CA	\$246,000.00	4/3/2017	\$249,693.37	0.50%
4/3/2014	CD - Dakota Community Bank & Trust, N.A., ND	\$245,000.00	4/3/2017	\$249,414.03	0.60%
4/3/2014	CD - Coatesville Savings Bank, PA	\$242,000.00	4/3/2017	\$249,266.63	1.00%
4/4/2014	CD - Sutton Bank, OH	\$245,000.00	4/4/2017	\$249,119.76	0.56%
4/4/2014	CD - Dmb Community Bank, WI	\$245,000.00	4/4/2017	\$249,414.03	0.60%
4/4/2014	CD - Mifflinburg Bank & Trust Company, PA	\$245,000.00	4/4/2017	\$249,046.19	0.55%
4/4/2014	CD - Farmers & Merchants State Bank, SD	\$242,000.00	4/4/2017	\$249,266.63	1.00%
4/4/2014	CD - First Central Bank, NE	\$245,000.00	4/4/2017	\$249,119.76	0.56%
4/4/2014	CD - Seaside National Bank & Trust, FL	\$244,000.00	4/4/2017	\$249,055.41	0.69%
4/4/2014	CD - Caldwell Bank & Trust Company, LA	\$244,000.00	4/4/2017	\$249,495.01	0.75%
4/4/2014	CD - Stratford State Bank, WI	\$245,000.00	4/4/2017	\$249,119.76	0.56%
4/4/2014	CD - Fresno First Bank, CA	\$245,000.00	4/4/2017	\$249,119.76	0.56%
4/10/2014	CD - Centertbank, OH	\$242,000.00	4/11/2017	\$249,636.92	1.05%
4/10/2014	CD - First Utah Bank, UT	\$244,000.00	4/11/2017	\$249,206.69	0.71%
4/10/2014	CD - Wolverine Bank, Fsb, MI	\$242,000.00	4/11/2017	\$249,273.26	1.00%
4/10/2014	CD - Spring Bank (Formerly Checkspring Bank), NY	\$242,000.00	4/11/2017	\$249,273.26	1.00%
4/10/2014	CD - City National Bank Of Taylor (The), TX	\$243,000.00	4/11/2017	\$249,572.98	0.90%
4/15/2014	CD - Community Resource Bank, MN	\$245,000.00	4/17/2017	\$249,790.59	0.65%
Total TERM CD Program		\$25,183,000.00		\$25,429,901.45	0.64%

## Operating Funds Portfolio Performance

Total Return <sup>1,2,3,4,5</sup>	Quarter Ended December 31, 2015	Last 12 Months	Last 3 Years	Last 5 Years	Since Inception
<b>City Of Galveston Operating Funds</b>	<b>-0.36%</b>	<b>0.44%</b>	<b>0.32%</b>	<b>0.40%</b>	<b>0.33%</b>
Merrill Lynch 1 Year Treasury Index	-0.17%	0.15%	0.20%	0.28%	0.28%
<b>Duration</b>	<b>December 31, 2015</b>	<b>September 30, 2015</b>	<b>Yields</b>	<b>December 31, 2015</b>	<b>September 30, 2015</b>
<b>City Of Galveston Operating Funds</b>	<b>1.70</b>	<b>1.55</b>	<b>Yield at Market</b>	<b>1.03%</b>	<b>0.56%</b>
Merrill Lynch 1 Year Treasury Index	0.91	0.92	Yield on Cost	0.86%	0.73%
<b>Combined Funds Portfolio Yield<sup>6</sup></b>	<b>0.29%</b>				

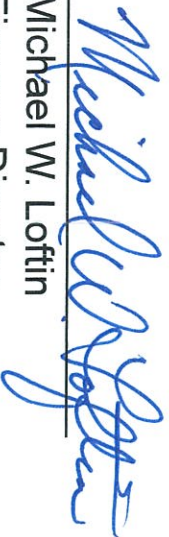


### Notes:

- Performance on trade date basis, gross-of-fees, in accordance with the CFA Institute's Global Investment Performance Standards.
- Merrill Lynch Indices provided by Bloomberg Financial Markets.
- The total returns shown for periods longer than a year are the annualized returns for the stated period. Performance numbers for periods under a year are presented on a periodic basis.
- Since inception performance is calculated from October 1, 2010 to present quarter end date.
- Does not include money market funds or cash equivalents in yield, performance, or duration computations.
- Weighted average yield of Composite Portfolio. Includes Operating Funds, Reserve Funds, TexasTERM, TexasTERM CDs, TexasDAILY, TexPool, Frost Sweep Balances.

## Quarterly Investment Report Certification

This report has been examined by the Investment Committee of the City of Galveston. Information presented in this report to the City Council represents an accurate description of the City's investment activity for the quarter ending December 31, 2015. This report meets all reporting requirements specified by the Public Funds Investment Act and the Investment Policy of the City of Galveston.



Michael W. Loftin

Finance Director  
City of Galveston



Brian Maxwell

City Manager  
City of Galveston



Ken Couch

Sr. Managing Consultant  
PFM Asset Management LLC

Dated: 1/25/16